

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SSO-00 SSC-01 EB-07 TRSE-00 AID-05

OMB-01 INRE-00 NSCE-00 USIE-00 CIAE-00 DODE-00

PM-04 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01

PRS-01 SP-02 SS-15 /068 W

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 5596

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E.O. 11652: N/A

TAGS: EFIN, EGEN, PE

SUBJECT: PIAZZA RESIGNATION - THE FINAL DAYS

REF: LIMA 5628

1. FINAL DAYS OF MINISTER OF ECONOMY AND FINANCE WALTER PIAZZA WERE MARKED BY LAST-MINUTE NEGOTIATIONS WITH IMF (WALTER ROBICHEK REPORTEDLY VISITED PERU IN EFFORT TO ACHIEVE SUCCESSFUL STANDBY AGREEMENT) WHICH WERE ON THE BRONK OF SUCCESS (LIMA 5506). ONLY TWO POINTS SEPARATED PERUVIAN TEAM AND IMF GROUP -- RATE OF MINI-DEVALUATIONS AND LEVEL OF PUBLIC SECTOR DEFICIT (LIMA 5570). THUS, OVER THE WEEK END OF JULY 2-3, PIAZZA HOPED TO BE ABLE TO SELL HIS ECONOMIC PROGRAM, INCLUDING COMPROMISE FUND STANDBY PACKAGE, TO JUNTA ON JULY 4.

2. UNFORTUNATELY, ACCORDING TO A VERY GOOD EMBASSY SOURCE, JUNTA ADOPTED A "PONTIUS PILATE" APPROACH TO ECONOMIC PACKAGE, AND REFERRED IT TO COUNCIL OF MINISTERS MEETING OF JULY 5. COUNCIL DID TAKE UP PIAZZA PACKAGE ON JULY 5, BUT WAS INTERRUPTED BY SKYJACKING (SEPTELS)

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AND DID NOT HAVE CHANCE TO GIVE FULL CONSIDERATION UNTIL NIGHT OF JULY 5-6. AS COUNCIL SESSION BECAME PROTRACTED, OBJECTIONS TO PIAZZA'S PROGRAM BECAME MORE EVIDENT. (WE UNDERSTAND THAT A LEADER OF COUNCIL OPPOSITION WAS MINISTER OF INDUSTRY AND TOURISM IBANEZ O'BRIEN.) PIAZZA WAS REPORTEDLY CHALLENGED INTER ALIA ON HIS TOUGH INCOMES POLICY, HIS DESIRE TO MAKE PUBLIC SECTOR ENTERPRISES (E.G.

AEROPERU, PETROPERU) SHOW NET REVENUE, HIS PROPOSED MAINTENANCE OF TIGHT CREDIT POLICY IN FACE OF PRESENT LIQUIDITY CRISIS, HIS DESIRE TO TRIM MINISTERIAL BUDGETS (INCLUDING MILITARY), AND HIS PROPOSAL TO CONTINUE MINI-DEVALUATIONS AT ABOUT PRESENT RATE. FINALLY AN ALLEGEDLY PEACEFUL AND NON-ABUSIVE SHOWDOWN CAME, AND A MAJORITY OF THE CABINET GAVE IN EFFECT A VOTE OF NO-CONFIDENCE IN HIS PROGRAM, PROMPTING PIAZZA TO OFFER HIS IRREVOCABLE RESIGNATION.

3. WE ARE INFORMED THAT FOLLOWING THIS COUNCIL OF MINISTERS SESSION, JUNTA (PRESIDENT, PRIME MINISTER, AND AIR MINISTER AND ACTING NAVY MINISTERS) MET TO CHOOSE A SUCCESSOR. EARLY CANDIDATES WAS GEG. JORG E CHAVEZ, FORMER CAEM HEAD AND PRESENTLY DIRECTOR OF NATIONAL PLANNING INS-TITUTE, BUT FOR SOME REASON HE WAS NOT CHOSEN. AFTER OTHER, BETTER-KNOWN NAMES WERE ALSO REJECTED, CONSENSUS WAS REACHED THAT A RATHER OBSCURE BRIGADIER GENERAL, ALCIBIADES SAENZ, SHOULD BE CALLED FROM HIS PRESENT DUTIES AS HEAD OF THE TELEPHONE COMPANY TO ASSUME THE MINISTRY. THERE BEING NO OBJECTIONS, IT WAS SO DECIDED, AND HE WILL BE SWORN IN THIS AFTERNOON. THIS WILL LEAVE BUT ONE CIVILIAN IN THE CABINET.

4. COMMENT: OBSERVERS OF THE PERUVIAN ECONOMIC SCENE, INCLUDING REPRE-SENTATIVES OF INTERNATIONAL FINANCIAL INSTITUTIONS AND INTERNATIONAL LIMITED OFFICIAL USE

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BANKERS, WILL BE AWAITING WITH GREAT INTEREST THE FIRST INDICATIONS OF THE ECONOMIC POLICIES TO BE PURSUED BY THE NEW MINISTER. OF CRITICAL IMPORTANCE IS WHETHER HE INTENDS (AND IF SO, WHETHER HE SUCCEEDS IN HIS INTENTION) TO INDUCE THE CENTRAL BANK TEAM TO STAY ON THE JOB. CARLOS SANTISTEVAN, PRESIDENT OF THE BANK AND HIS CLOSEST ASSOCIATES ARE WELL AND FAVORABLY KNOWN IN INTERNATIONAL FINANCIAL CIRCLES, AND WOULD PROVIDE A MOST USEFUL CONTINUITY IF THE GOP INTEND S TO CONTINUE TO PURSUE AN IMF STANDBY AND BRIDGE FINANCING LOANS FROM COMMERCIAL BANKS IN THE U.S., EUROPE, AND JAPAN. AT THIS MOMENT, THESE IMPORTANT QUESTIONS REMAIN UNANSWERED. SHLAUDEMAM

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